National Association of
NAB
BROADCASTERS

ORIGINAL

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November 28, 1995

Office of the Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

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Dear Mr. Secretary:

Attached please find the Statement of Ralph W, Gabbard on behalf of the National Association of Broadcasters for the FCC's *En Banc* Hearing on Digital Television to be held on December 12, 1995. The hearing concerns issues in the pending proceeding in MM Docket No. 87-268.

Also attached is a summary of those remarks, a brief biography of Mr. Gabbard and a description of the National Association of Broadcasters.

Copies are also being submitted to the Policy and Rules Division of the Mass Media Bureau.

Sincerely,

Valerie Schulte

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Statement Of

RALPH W. GABBARD

On Behalf Of The

National Association Of Broadcasters

For The Federal Communications Commission
En Banc Hearing On
Digital Television

December 12, 1995

Statement of Ralph W. Gabbard
December 12, 1995

I am Ralph W. Gabbard, President and COO of Gray Communications Broadcast Group, the licensee of six television stations in the following smaller markets: Lexington, Kentucky, Hazard, Kentucky, Panama City, Florida, Albany, Georgia, Augusta, Georgia, and Monroe, Louisiana/El Dorado, Arkansas. I am also Chairman of the Television Board of Directors of the National Association of Broadcasters. I appreciate the opportunity to appear before you today as you hear testimony on Advanced Television -- digital television, high definition television and other capabilities and opportunities available through this wondrous new technology that holds such great promise and potential benefits for the American viewing public. This wondrous new technology of course will offer the Digital/ATV/HDTV benefits for *all* the viewing public *only* if it is offered by over-the-air broadcasters who serve over 98% of the American people with *free, local* television service.

It is for this reason -- the ubiquitous reach of free broadcast television into virtually every home in the land -- that I am particularly pleased to participate on the panel discussing the impact of the transition to advanced television on *consumers*. Consumers, after all, view an average of almost 51 hours of television per household per week! Their stake in this transition is large indeed.

I carry one overriding message to the Commission today -- that is that I see the *general viewing public's interest here, the consumers' interest, inextricably tied to the ability of broadcasters -- in every market size -- to bring this amazing new digital technology into all American homes* -- so that the American viewing public will have a full and fair opportunity to judge the benefits of digital TV and decide what *they* want for the future of American

television. America's broadcasters, even those in mid and smaller sized markets, stand ready to bring DTV/HDTV/ATV to their audiences. The public *should* be given *every* opportunity to determine this future -- their future. It should not be constrained by limits on the technology, by limits on the quality or type of programming, by limits imposed by the cable gatekeeper, nor by unreasonable limits on the ability of broadcasters in every market size to transition to ATV in the broadest, most general sense of that term.

Simply put, the American consumers' ability to explore and enjoy advanced television is dependent on the broadcasters' ability to transition to ATV. You cannot have one without the other.

It is important to consumers that the only *free, universal, local* television service be *enabled* to offer the highest quality and most flexible service to test and meet *consumers'* interests. No other television provider has plans or is likely to offer this range of service to consumers, certainly not for free and to every home. Neither cable nor DBS have current plans to introduce HDTV, although both are going digital and both are multi-channel. Nor are the telcos, or any other new entrants, likely to offer digital/ATV/HDTV services with no existing population of digital receivers. And for the one-third of American homes without cable, broadcast ATV offers them not only the opportunity of HDTV, but of new multiple channels of television as well.

One thing is clear: no other provider could or would offer as swift and as seamless a transition to ATV for the benefit of the viewing public as today's broadcasters. Thus the FCC recently endorsed a proposal *enabling* broadcasters to make this transition -- to duplicate their current coverage with an ATV signal -- for the benefit of the viewing public.

Another thing also is clear: it is important to *consumers* that there be a temporary transition channel made available for this transition. Otherwise *consumers* will be denied the opportunity for ATV because broadcasters will not be able to transition smoothly to ATV *or* *consumers* will be forced to buy new, very expensive receivers overnight (and lose their entire investment in their current receivers) as (some) broadcasters convert overnight to technology not receivable on today's' sets. (I say "some" because not all broadcasters will be willing to let go of the distribution mechanism for their entire business without any receivers to receive the new transmissions.) These scenarios are not good for anybody.

It is also important to *consumers* that the FCC's assignment/allotment plan be carefully engineered through the thicket of existing VHF and UHF assignments to provide *as much* ATV service to the *same* viewers *and* to protect *existing* viewing from new interference.

And it is vitally important to *consumers in mid-sized and smaller markets* that *their* free, universal, local television stations are able to offer them the full range of ATV services. This means that smaller market broadcasters must be afforded a reasonable ATV roll-out period. Without it, many mid-sized and most small market broadcasters could not afford to construct ATV facilities and therefore would not be able to bring ATV to smaller markets. Without a staggered implementation schedule, ATV could become only a large market phenomenon, and even that transition would be hurt by the loss of the sizable numbers of both broadcasters and consumers in the mid and smaller markets.

It is this issue -- the need for a staggered implementation schedule for the mid-sized and smaller markets -- for the benefit of *consumers and broadcasters* -- that I would like to focus my remarks on today. Other broadcast representatives will well represent other

broadcaster/consumer issues in the ATV transition. I and NAB take this opportunity to speak on behalf of *broadcasters and consumers* and their mutual interests in the Commission's adopting a staggered-by-market size construction schedule.

ATV IMPLEMENTATION COSTS

One thing that is certain in the transition to advanced television is that the costs for all television stations to implement ATV will be very high -- and for those needing new towers the costs will be even higher. Another "given" is that there is a tremendous difference in the financial capability of stations, mostly corresponding to market size. At this stage, the total costs of ATV implementation are not known with a great deal of certainty, although good faith estimates are plentiful.

What is also known is that I and my brethren station owners will have to pay for it. The vendors have not committed to pricing for the production versions of ATV capable equipment, and many are not past the engineering model stage. There are, however, estimates of the costs for stations in the transition period to provide a viable service.

My goal here today is to make you aware of the magnitude of the ATV transition challenge for smaller market stations. What I will do is, first of all, describe the costs that must be incurred to operate an ATV station -- in any size market, then tell you something about the financial resources of smaller market stations, and finally urge that the construction period mandated by the Commission for "pass-through" or basic capability be set up on a market-staggered basis -- to allow smaller market broadcasters and their audiences -- the consumers -- to see ATV become a reality in those small markets.

The NAB published a book[1] in 1993 that provided information about the costs for establishing an ATV broadcast operation. The numbers I am using are from that book, which after review, still seem to be reasonable estimates of what will be required.

Fundamental functions that must be done to get on the air with a viable ATV operation.

1. Get the ATV signal into the station

In order to pass through an ATV program that is created elsewhere, a signal path for the program must exist. The likely path would be through a satellite link into the studio with optical fiber connectivity as a backup. Once in the studio the signal would go to a digital recorder or to the master control switch to route it for eventual transmission. The basic equipment for this function is estimated to cost **$102,500**.

2. Put NTSC programming into ATV format

Local news, local programs (like local children's shows) and commercials will need to be up-converted from NTSC to a digital format that will be compatible with the ATV transmission stream. The need to up-convert is reality -- there just are not going to be an adequate supply of ATV programs in the initial years. The equipment to do this is estimated to cost **$304,000**.

3. Switch between signal sources

A device to switch among the data streams that will represent programs and commercials is needed. This device must manage these transitions so there is essentially zero

[1] S. Merrill Weiss and Rupert Stow titled "NAB 1993 Guide to ATV Implementation Costs"

time between them to make sure the pictures do not freeze on the consumers' sets. At a minimum the following sources must be switchable:

- ATV external input
- ATV stored programming
- Live NTSC programming
- Pre-recorded NTSC programming or commercials

Control and monitoring equipment is also needed. All this is estimated to cost **$291,600**.

4. Get the signal to the transmitter

Once the signal has been selected it must be converted into a format that will work with the modulator. Then, since in the typical case the transmitter is not co-located with the studio, this 'encoded' signal must be sent to the transmitter site. An upgraded version of a STL microwave link will normally be required. The costs to encode, send and receive the signal at the transmitter are estimated to be **$272,500**.

5. Boost the power

Once the signal is at the transmitter, it must be modulated and boosted to the power needed to replicate existing coverage and reach existing audiences. This requires a new ATV specific modulator and a new transmitter that is set up for the new ATV channel, along with monitoring and control equipment. This is estimated to cost **$395,400**.

6. Get the signal up the tower

Sending the signal up the tower takes, for this model, a six-inch diameter feed line that is 1300 feet long. The tower is modeled to have a small amount of structural reinforcement

needed to support this feed line and the new antenna that is designed for the new ATV channel. The cost for the feedline, the antenna and their installation is estimated to be **$470,000**.

7. Broadcast the signal

Once the $1.8 million detailed above has been spent, the station that is lucky enough to be able to put the ATV antenna on an existing tower can be operational. Some stations will need a bigger transmitter and/or their existing tower will not be able to support the added load. The number of such stations is not known, but a survey of chief engineers done several years ago revealed that many felt their stations will need a new tower.[2] A 1,000 foot tower costs about **$500,000** and a 1,500 foot tower costs about **$1.1 million**, so some stations will have to raise even more money.

And, once this basic capability is in place, the expenditures do not stop. New capabilities, such as the capability to add audio for local tags of commercial tapes and, importantly, local origination of ATV programming to be broadcast, still are necessary for a full functioning ATV television station. These costs have very wide variations as the number of each type of production equipment will vary widely depending on the needs of each market. The amount of origination of SDTV programs and HDTV programs significantly affect these costs. They are so varied that to estimate them at this time would detract from my main message about what it takes for all stations to establish ATV capability during the transition period. Suffice it to say that the costs would easily be $6 million or more, even in small markets.

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[2] Id. Page A-7 shows a range of 45% (-20 dB) to 65% (same as NTSC) needing a new tower depending on the power.

So, what we have so far are costs for transitional ATV implementation -- for every station, no matter what the size -- at **$1.8 million**, and that's without a new tower.

Time and Resource Factors Affecting Costs

As technology matures and volume builds, costs drop.

The new digital hardware is not proven nor optimized and revisions will be made as the industry learns better ways to perform each function in a new ATV station.
New and better ways to do things will be invented as the innovative station engineers tackle the task of getting ATV stations on the air. These will be turned into products that will be available to later converting stations, if enough time is allotted.

Costs are affected by supply and demand

The rule of thumb is that production costs drop 10% for each doubling of volume. Technology advances also affect (lower) costs. Recent history seems to validate Moore's law that the number of transistors that can be put on a chip doubles every 1.5 to 2 years for the same cost. (Prices may or may not follow, depending upon the level of competition, the level of demand and the marketing strategy of the vendor.)

There will not be much time for the general trend of falling costs to have significant impact with a short, all-at-once approach to ATV implementation. Further, if the ATV construction period is short, little competition will develop among the critical capital equipment vendors.

The tower construction and transmitter manufacturers have been identified as two such critical sets of vendors. These two types of vendors will be fully taxed to meet the construction needs of the entire television industry over six years.

A staggered construction period would reduce costs by allowing the technology to mature, the manufacturing efficiencies to develop, and competition to arise. It would also remove the incentive to raise prices created by a "crunch" construction period where demand exceeds current production capacity.[3] Such cost (and price) lowering, enabled by a staggered (for the smaller markets) construction period, is critical to the ability of smaller market stations to bring ATV opportunities to their viewers. For, as I will discuss next, the financial burden on the small station is too heavy and needs to be lightened so that all stations will be *able* to implement ATV for the benefit of their audiences.

FINANCIAL ABILITY OF SMALLER MARKET STATIONS

A staggered implementation period would allow stations in smaller markets, which generally do not have the financial resources as stations in the bigger markets, to implement the new ATV technology in a manner consistent with sound business practices. Stations in smaller markets, such as the markets in which my company operates, would be financially pressed to pay the prices sought by manufacturers soon after the introduction of ATV equipment. Stations in markets smaller than the ones in which I operate would find it even more difficult, if not impossible, to shoulder the capital outlays that are necessary to transmit ATV signals.

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[3] For example, IS/WP 2 reported that manufacturers would have to add additional production shifts to produce the full complement of transmitters in 6 years.

Let me refer you to some recent financial information about television stations to illustrate the relative difference in financial capability of stations in different market sizes. These financial data are from the annual surveys of the television industry conducted by NAB, the Broadcast Cable Financial Management Association and Price Waterhouse. This survey generates responses from nearly 70% of all commercial television stations, and the resulting reports are used by the entire industry.

The most recent year, 1994, was an extremely good one for the U.S. economy and for television stations as well. The average television station in the top ten markets had a profit of $25.8 million. Yet, in market sizes 61 to 70, (Lexington, KY where I operate a station is in market 68), the average station's profit is *11.2%* of that in the top ten markets. In smaller markets, such as market sizes 151 to 175 (my company operates in Albany, GA, market 154 and in Panama City, FL, market 161), the average station's profit is only *2.7%* of that in the largest markets. Yet the minimum costs to convert to ATV will be roughly the same in all these market sizes!

And these averages in fact mask the far more difficult financial position of many stations and the problems they would have in servicing the amount of debt that would be incurred to implement ATV. For example, in markets sizes 61-70, one-quarter of all commercial stations had profits less than $1.3 million. In the smaller market sizes of 151-175, one-quarter of the stations had profits of only $67,000. or less. And, this was in a good year.

Going back only a few years ago to the economic downturn, television stations were earning substantially less than in 1994, and many more stations were operating in the red. We all are aware that economic downturns will occur again and that meeting the financial

requirements for ATV implementation during those downturns will be extremely difficult. For example, in 1990 the average station in my market size, markets ranked 61 through 70, only generated $431,000 in pre-tax profits, with one-quarter of these stations incurring losses of over $669,000.

The economic position in which some television station find themselves does not mean that stations would not invest in new capital expenditures. In fact, they are doing so every year, but not in amounts that stations would have to come up with to construct ATV facilities *and* maintain functioning NTSC facilities. Stations in my market size range, markets ranked 61-70, made *capital expenditures* of $492,000 in 1994, stations in markets ranked 151-175 made capital outlays of $192,000.

To finance the new *additional* capital expenditures to construct an ATV plant, one would naturally turn to the financial markets. Clearly bank loans would be available for broadcasters who have consistently shown strong earnings. But for many other broadcasters, convincing bankers of the soundness of making large loans for new equipment which does not appear to generate new additional revenues -- before the large markets have rolled out ATV services and large market banks have financed them -- should be do-able, but difficult.

But of course servicing and paying off this debt will be another story. Typically, equipment loans are made by banks for a maximum 5 year term, with interest rates charged of prime plus three percentage points. Given the estimated minimum amount needed of $1.8 million and the present prime lending rate of about 9% (i.e., loan rate of 12%), a loan for ATV transition would require an annual payment of *$480,480 thousand a year*. This investment will still be a major financial challenge for most, compared to historical capital investments.

This is my biggest concern -- how do we pay back these loans with no increased revenue in the transition years and the continued costs of operating our NTSC facilities?

No Additional Revenue

I say no additional revenue because, to generate additional revenues, ATV stations must either attract a critical mass of additional viewers in order to "sell" ATV ads separately or be able to charge a higher rate for the advertising to the same audience. I frankly don't see how ATV services in smaller markets will generate a critical mass of *additional* viewers, especially in the early years. Given the length of time expected for *consumers* to adopt this new technology, it will be many years before enough viewers have ATV sets to make a difference in viewing trends, even if early adopters view more television, which is also uncertain.

Some have argued that viewing will increase if broadcasters program their ATV channels with different programming from their NTSC channel for the first few years. With more programming options, viewers may increase their viewing to the combined two programming options provided by each television station. This increase, however, may only be revenue enhancing for stations in larger markets. The small percentage of consumers in the large markets who buy ATV receivers might constitute a "critical mass" of viewers large enough to be able to sell to advertisers. In New York, a 1 percent penetration of households with ATV receivers amounts to over 67,000 homes. In Lexington, 1 percent of viewers is only 3,700 homes, and in Panama City, 1 percent of viewers is only slightly over 1,000 homes. Clearly, broadcasters in the medium and smaller markets could not generate any additional advertising revenues from these small numbers of *potential* viewers. Thus even those stations

who multiplex, say, four SDTV programs on the ATV channel won't see much more additional revenue until they see substantial penetration of ATV receivers.

Moreover, I can't see too much of an *overall* increase in viewership even when larger percentages of the audience have bought ATV sets, judging by recent historical television viewing patterns, which show overall viewing growth substantially slowing in the last ten years.[4] While viewing increased on average by eight hours in the fourteen years from 1971 to 1985 (from 42:04 to 50 hours), it increased only 50 minutes in the ten years from 1985 to 1994 (from 50 hours to 50:50). Thus while those stations with the highest ratings might make some additional revenue to help finance their construction costs, TV viewership overall probably won't increase a whole lot, and thus other programs' ratings would suffer and those operators would make less revenue.

And I really don't think that advertisers are going to pay us more for the dazzling resolution their ads will have. Some might . . . but it all looks to me like a zero sum game. (Make no mistake, I still want the opportunity to supplement my revenue if that's possible, but from where I sit now I don't see it.)

As to the possible additional revenue from auxiliary and supplemental data services we might offer, I'm also not going to hold my breath. They tell me there's a business there, John Abel certainly believes in it. But right now, I can't take anything to the bank, or to the bankers. Today I have VBI capacity, but we don't have VBI business on any of our stations. Not that I wouldn't like it. We just don't see supplemental business there today.

Good Year/Bad Year Profits

[4] Household Television Viewing, Television Audience 1994, Nielsen Media Research at 16, here attached as Attachment.

So -- back to my main concern -- how do we pay back the loans for ATV construction? Well, our profits are the only place I see as a source for ATV construction costs or ATV loan payments. Obviously for most of us these very large amounts will be stretched over a number of years, and not paid all at once. But let's take another look at those profit figures in mid and smaller markets in light of the basic $1.8 million in ATV construction costs (in the earlier years) and the estimated $480,480 annual loan payment to finance these costs over five years.

We have constructed a chart, here attached as Attachment B, from the 1995 and 1992 NAB/BCFM Television Financial Report showing the pre-tax profits of the average station for each market-sized grouping for 1994 and 1991. I think it would be useful to look at both 1994 and 1991 figures because 1994 was a very good year and 1991 was a recession year. There is no gainsaying what kind of years we will have during the ATV implementation period -- good years or bad years. Thus I think it would be helpful, to get a picture of how many stations might be situated during the implementation years, to assume that there will be some good years and some bad years and therefore look at an "average" of good year/bad year profits for the various market-sized groupings.

For markets 61-70 (where my Lexington, KY, 68th market station falls), the average pre-tax profit was $2.9 million for 1994 and $800,000 for 1991. The good year/bad year "average" was $1,850,000. Thus the average profits in the "average" year could probably handle a $480,480 annual payment to finance $1.8 million in ATV construction costs. What I'm more worried about is how to finance the $6 million plus for full ATV facilities that I believe I'm going to need to stay in the game.

Let's look at the much smaller markets in *markets 151-175* (where my company operates two television stations). There, the average profit was $700,000 in 1994 (the good year) and just $172,000 in 1991, with *the good year/bad year average for all stations in that market group at $436,000 -- not enough to finance ATV costs even taking all annual profits.* If these stations were forced to construct within the six year period, the $1.8 million price tag would take over 2/3 of the average station's total profits for all six years, should they pay the price out of retained earnings rather than going in the red to finance construction. Both scenarios would be unacceptable to most businesses and their owners/investors. If these stations had, say, nine years to construct, and retained earnings for this purpose, the $1.8 million price tag would take almost half of their profits for nine years. If, instead, they were afforded a total of, say, *12 years to construct, the $1.8 million outlay would consume nearly 35% of profits over the 12 year period.* But there would still be profits for their owners/investors and their "business model" would not be so grossly distorted as under other scenarios.

Staggered Schedule, Not Waivers

But it is because I believe that stations in these smaller markets nonetheless want to have the opportunity to operate in the ATV world, to bring the benefits of ATV to their audiences, to not have themselves and their audiences left with second-class television that I am here asking you to establish a staggered ATV construction schedule for smaller markets.

And I believe you need to extend the schedule for smaller markets, not just have a liberal individual waiver/extension policy. Otherwise these stations will have to expend more money to obtain waivers, essentially be singled out as financially incapable, and wait for waiver

grants from what would become the Federal Waiver Commission, rather than having a sound recognition of the different circumstances of the smaller markets and an upfront extension of their schedule so that they can get on with their business planning for an orderly transition.

A staggered schedule would give confidence to even less financially capable smaller market stations that they could make the investment and enter the ATV future. It would give confidence as well to smaller market bankers who would see the vast majority of stations making the transition and who would see the large market ATV experiences. Such a schedule would also less distort the typical business model and the workings of the marketplace for these smaller stations, as to capital investment, profit and retained earnings profiles. It also wouldn't force the financially marginal stations into opting out *or* risking such a relatively large (for them) investment and potential bankruptcy *before* the marketplace in the larger markets has spoken regarding HDTV/ATV.

The staggered construction period would also allow for gradual upgrade of equipment for these financially strapped stations in the early years. It also allows for consumer receiver and converter prices to fall so that when the smaller markets implement, a greater percentage of small market consumers would be able to buy television sets or converters at a faster rate and thus "catch up" some to the larger market set penetration rates.

Without a staggered construction schedule, many stations and their audiences may have to forego the opportunities of the ATV future. The overall number of free local broadcast stations well could be reduced, thus reducing the amount of *free local* service available in smaller markets.

I also believe that establishing a longer, staggered schedule for smaller markets will not interfere with the "surrender" of the NTSC channel and/or the "repacking" of the television spectrum to allow the government to reap the benefits of auctioning the "reclaimed" spectrum. Clearly the more valuable spectrum is in the large markets where the transition and "reclaiming" of spectrum can proceed apace and where the Commission will want to auction first.. Also, plans for "repacking" the spectrum in order to reclaim a more valuable swath of spectrum similarly can proceed while some in the smaller markets are still transitioning. Furthermore, by the time plans are laid for the surrender and/or repacking of nation-wide spectrum, the smaller markets can have completed their transition, thereby not standing in the way of nation-wide build-outs of new services.

I therefore strongly urge the Commission to establish a staggered construction period, maintaining a six year schedule for only the top ten markets, and extending the schedule for perhaps an additional two or three years for a middle group of market sizes and perhaps an additional two or three years beyond that for the smallest markets. The break point for the "second cut" is one that should be carefully made, after considering the financial information we are here submitting. It may be that the Commission might select markets "100 plus," a standard industry break-point, for the most extended construction schedule.

It also well may be that the competitive pressures of the marketplace and developments yet unknown will hasten ATV implementation in even the smaller markets. That would of course be the best outcome. But I believe that the Commission must act to *enable* the smaller markets and the smaller stations in the mid-sized markets *and their consumers* to participate in the ATV future alongside their much more financially capable sister stations in the larger

markets. Small market television should not be allowed to become a relic of the 20th Century. We in smaller markets want the opportunity to enter the 21st Century with 21st Century technology so that *all* American television can remain *free, local and the envy of the world.*

UPFRONT AUCTIONS

I would like to make an additional couple of comments on two subjects of importance and current discussion. One is the suggestion that the ATV spectrum might now be auctioned to the highest bidder, rather than be temporarily used as a transition channel for ATV implementation. I believe that auctioning the patchwork of spectrum that is planned as transitional ATV spectrum would be bad public policy, bad for broadcasters and, most importantly, bad for American consumers.

That is because auctioning ATV spectrum *now*, rather than after the transition, *would stymie the deployment of free advanced television service, and all that ATV can bring to the American viewing public*. First, if all bidders were welcome, there would be no assurance that the spectrum would be used for ATV services, or *for free ATV service, or for local ATV service*. Second, there is no assurance that most broadcasters would bid for ATV spectrum, given the already very high costs to build ATV facilities. Third, even if an auction were restricted to "TV" or to "ATV," there is no assurance that broadcasters, particularly in smaller markets, could afford to bid -- and thus free TV wouldn't remain competitive, and the public would be denied free ATV service, in at least the smaller markets. Fourth, even if the spectrum in an auction were restricted to ATV service, no one but broadcasters can bring ATV to consumers in as swift and seamless a way as broadcasters can. Moreover, no one but broadcasters would really deliver on ATV (as opposed to bidding on the spectrum) because

there would be *no receivers* and little if any return on investment for a long, long time. Thus, uncertainty and upheaval in ATV planning will have been created for little benefit. Finally, by discarding the carefully engineered allotment/assignment plan designed for existing broadcasters, existing consumer service could not be replicated for ATV and consequently consumers will receive less ATV service with a "basket of channels" approach.

Auctioning ATV spectrum now would also be bad for consumers because it would *hurt the current NTSC service* that the average household views or "consumes" over 50 hours a week! There would be interference to NTSC service from other uses in the TV band. There would be additional interference from ATV operations not subject to the carefully engineered "paired" allotment/assignment plan. And the NTSC service overall would be weakened by making the non-bidding broadcasters less competitive and by creating weaker ATV/NTSC broadcasters who would carry the ATV transition (both costs and spurring receiver penetration) without help from the "greater" number of broadcasters.

Finally, auctioning the ATV spectrum now, rather than after surrender and possible repacking, would also *not reap the highest value* because patchwork channels, different in every market, won't bring as much value as an entire band would at a later time.

MUST CARRY

The last comment I would like to make is the critical importance of carrying over full must carry rights to the ATV channels and in the ATV world. Consumers simply must be assured that they can receive all free, over-the-air broadcast channels and that cable companies will not act as anti-competitive gatekeepers. The Commission can give consumers this

assurance by simply applying, for the transition, the must carry rights that Congress believed were important for the good of the American viewing public.

Moreover, by applying must carry to the transitional ATV channel, the Commission can help spur the penetration of ATV receivers and thereby accelerate the channel give-back and speed up the transition.

Thank you for the opportunity to share my thoughts with you today.

TELEVISION AUDIENCE 1994

Household Television Viewing

During the 1993–94 broadcast season, average household viewing rose to 50 hours and 50 minutes per week, an increase of 26 minutes from year-ago levels.

Winter months (January–February) continue to register the highest viewing levels at 55 hours, 57 minutes—10% above the annual average. The lowest viewing levels continue to be in the summer months of July and August, where the average of 48 hours and 13 minutes is 5% below the annual average, although that gap is shrinking.

Distribution of viewing by daypart has remained relatively consistent—primetime remains the most-viewed daypart. Monday through Friday daytime remains in second place, followed by weekend day.

Household Television Viewing Total Day

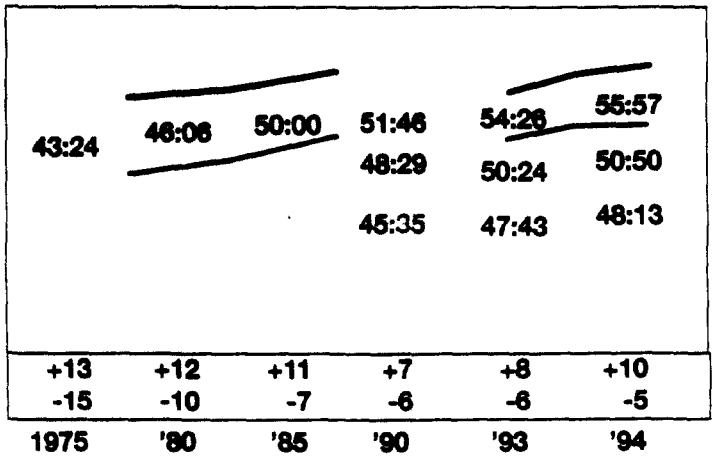
Average Hours of Viewing per TV Household per Week

	Hrs:Mins		Hrs:Mins
1971	42:04	1983	48:31
1972	42:46	1984	49:58
1973	43:49	1985	50:00
1974	43:41	1986	50:16
1975	43:24	1987	48:22
1976	43:29	1988	49:04
1977	43:37	1989	49:19
1978	43:41	1990	48:29
1979	45:05	1991	48:40
1980	46:06	1992	49:35
1981	47:07	1993	50:24
1982	47:44	1994	50:50

Prior to 1993, 12 months ending August each year; 1993–94 dates follow broadcast seasons (mid-September to mid-September). Data prior to 1987 based on NTI Audimeter sample.

Household Television Viewing Total Day

Average Hours:Minutes of Viewing per TV Household per Week



Note: Prior to 1993, includes 48 weeks per year; 1993–94, 52 weeks. Data for 1975–85 based on NTI Audimeter sample.

Television Stations Financial Information

Market Range	# of Commercial TV Stations	% of U.S. Total # of Stations	Cumulative % of TV Stations	% of Population Jan. 1995	Cumulative % of Population	1994 Pre-Tax Profits (millions $)	1993 Pre-Tax Profits (millions $)	1991 Pre-Tax Profits (millions $)
1-10	139	10.9%	10.9%	31.1%	31.1%	25.8	20.4	13.9
11-20	119	9.4%	20.3%	13.2%	44.3%	10.0	7.4	2.8
21-30	85	6.7%	27.0%	9.5%	53.8%	6.2	4.2	2.4
31-40	84	6.6%	33.6%	7.2%	61.0%	4.6	3.1	1.1
41-50	82	6.5%	40.0%	5.8%	66.8%	2.8	2.7	0.8
51-60	69	5.4%	45.5%	5.1%	71.9%	2.9	2.0	-0.4
61-70	89	7.0%	52.5%	4.2%	76.1%	2.9	2.0	0.8
71-80	56	4.4%	56.9%	3.6%	79.6%	2.3	1.4	0.5
81-90	54	4.2%	61.1%	3.1%	82.8%	1.7	0.9	0.9
91-100	51	4.0%	65.1%	2.8%	85.6%	1.7	1.2	0.4
101-110	58	4.6%	69.7%	2.4%	88.0%	0.7	0.0	-0.9
111-120	61	4.8%	74.5%	2.3%	90.3%	1.1	0.2	-0.3
121-130	58	4.6%	79.1%	1.9%	92.2%	0.9	0.4	-0.3
131-150	83	6.5%	85.6%	3.1%	95.4%	0.8	0.2	-0.7
151-175	92	7.2%	92.8%	2.8%	98.2%	0.7	0.6	0.2
176+	91	7.2%	100.0%	1.8%	100.0%	0.5	0.3	0.1

Sources: Number of Stations: BIA "Master Access"; Population: A.C. Nielsen, January 1995;
Station Profits: 1992, 1994, & 1995 NAB/BCFM Television Financial Reports.

Summary of Statement of Ralph W. Gabbard

I am Ralph W. Gabbard, President and COO of Gray Communications Broadcast Group, the licensee of six smaller market television stations. I am also Chairman of the Television Board of Directors of the National Association of Broadcasters.

I carry one overriding message to the Commission today -- that is that I see the *general viewing public's interest here, the consumers' interest, inextricably tied to the ability of broadcasters -- in every market size -- to bring this amazing new digital technology into all American homes* -- so that the American viewing public will have a full and fair opportunity to judge the benefits of digital TV and decide what *they* want for the future of American television. It is vitally important to *consumers in mid-sized and smaller markets* that *their* free, universal, local television stations are able to offer them the full range of ATV services. This means that smaller market broadcasters must be afforded a reasonable ATV roll-out period.

There is a tremendous difference in the financial capability of stations, mostly corresponding to market size. My goal here today is to make you aware of the magnitude of the ATV transition challenge for smaller market stations. The costs for transitional ATV implementation -- for every station, no matter what the size -- are **$1.8 million**, and that's without a new tower. A staggered construction period would reduce costs by allowing the technology to mature, the manufacturing efficiencies to develop, and competition to arise. Such cost (and price) lowering, enabled by a staggered (for the smaller markets) construction period, is critical to the ability of smaller market stations to bring ATV opportunities to their viewers.

The most recent year, 1994, was an extremely good one for the U.S. economy and for television stations as well. The average television station in the top ten markets had a profit of $25.8 million. Yet, in market sizes 61 to 70, (Lexington, KY where I operate a station is in market 68), the average station's profit is *11.2%* of that in the top ten markets. In smaller markets, such as market sizes 151 to 175 (my company operates in Albany, GA, market 154 and in Panama City, FL, market 161), the average station's profit is only *2.7%* of that in the largest markets. Yet the minimum costs to convert to ATV will be roughly the same in all these market sizes!

This is my biggest concern -- how do we pay back these loans with no increased revenue in the transition years and the continued costs of operating our NTSC facilities? Our profits are the only place I see as a source for ATV construction costs or ATV loan payments. Obviously for most of us these very large amounts will be stretched over a number of years, and not paid all at once. But let's take another look at those profit figures in mid and smaller markets in light of the basic $1.8 million in ATV construction costs (in the earlier years) and the estimated $480,480 annual loan payment to finance these costs over five years.

For markets 61-70 (where my Lexington, KY, 68th market station falls), the average pre-tax profit was $2.9 million for 1994 and $800,000 for 1991. The good year/bad year "average" was $1,850,000. Thus the "average" profits in the "average" year could probably handle a $480,480. annual payment to finance $1.8 million in ATV construction costs. What